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November 12, 2015

Ms. Marlene H. Dortch, Secretary
Federal Communications Commission
445 12th Street SW
Room TW-A325
Washington, DC 20554

Re: *Petition of Allband Communications Cooperative for Further Waiver of Part 54.302*

In the matter of: Connect America Fund, WC Docket No. 10-90
A National Broadband Plan for Our Future, GN Docket No. 09-51
Establishing Just and Reasonable Rates for Local Exchange Carriers,
WC Docket No. 07-135
High-Cost Universal Service Support, WC Docket No. 05-337
Developing an Unified Inter-carrier Compensation Regime,
CC Docket No. 01-92
Federal-State Joint Board on Universal Service, CC Docket No. 96-45
Lifeline and Link-Up, WC Docket No. 03-109
Universal Service Reform--Mobility Fund, WT Docket No. 10-208

Dear Ms. Dortch:

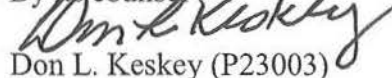
Please find enclosed for filing in the lead docket 10-90 the Response of Allband Communications Cooperative to the September 23, 2015 Memorandum of Universal Service Administrative Company Internal Audit Division (USAC IAD), entitled: **DA 15-766, In the Matter of Allband Communications Cooperative (ACC) Petition for Waiver of Certain High-Cost Universal Service Rules: Response of Allband Communications Cooperative to September 23, 2015 Memorandum of Universal Service Administrative Company Internal Audit Division (USAC IAD).**

We are also sending a copy of this filing via e-mail to Suzanne Yelen (suzanne.yelen@fcc.gov), Alexander Minard (alexander.minard@fcc.gov), Joe Sorresso (joseph.sorresso@fcc.gov), and to the Commission's copy contractor at fcc@bcpiweb.com.

Respectfully submitted,

ALLBAND COMMUNICATIONS COOPERATIVE

By its counsel


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DLK/cd
Atts.

RESPONSE MEMORANDUM

To: Federal Communications Commission Wireline Competition Bureau (FCC WCB)

From: Allband Communications Cooperative (ACC)

Date: November 12, 2015

Re: *DA 15-766, In the Matter of Allband Communications Cooperative (ACC) Petition for Waiver of Certain High-Cost Universal Service Rules: Response of Allband Communications Cooperative to September 23, 2015 Memorandum of Universal Service Administrative Company Internal Audit Division (USAC IAD).*

Allband files this Response in reply to the USAC IAD Memorandum dated September 23, 2015, which was provided to Allband on October 13, 2015, and filed in the FCC Docket on October 23, 2015.¹ The USAC Internal Audit Division (IAD) therein reported its findings concerning an examination of Allband Communications Cooperative (ACC) directed by the FCC Wireline Competition Bureau (Bureau). IAD conducted an examination of ACC for the data years 2007 to 2014. The Memorandum addressed five areas per Order DA 15-766, and USAC IAD's response to each requirement.

This Memorandum contains ACC's responses to the findings and conclusions USAC IAD states in its Memorandum. ACC disagrees with several of the findings and conclusions stated in the USAC IAD Memorandum. In particular, the facts don't support IAD's conclusion that it was unable to determine "that ACC's cost allocation practices were reliable or appropriate in adhering to FCC rules." Rather, the information provided by ACC demonstrates that its cost allocations and High Cost Universal Service amounts were reasonable. ACC asserts:

- There are contradictory statements in IAD's Memorandum concerning ACC's compliance with the FCC cost allocation rules. For instance, IAD states "ACC's cost allocations procedures and methodology generally do appear reasonable and in accordance with FCC rules" (Memo, p. 1) but then claims that it "is unable to conclude that ACC's cost allocations were reliable or appropriate in adhering to the FCC rules" (Memo, p. 1 – p. 2)
- The error rates regarding time reporting and expense classifications (Memo, p. 2) are incorrect. These erroneous error rates are the primary basis for USAC IAD's determination that it could not conclude that ACC's cost allocations were reliable.

¹ Allband understands from communications with USAC that the Memorandum, or a draft thereof, may have been provided to agency personnel on September 30, 2015 or earlier.

- IAD's conclusion that it is not possible to determine whether ACC's services to its affiliate Allband Multimedia (AMM) "have been priced according to the affiliate transaction rules" (Memo, p. 4) is also based on erroneous error rates and does not properly consider and incorporate factual information provided by ACC.
- The total impact of the IAD asserted errors on ACC's High-Cost Universal Service Support is quantifiable and has a de minimus impact on the amount of such support. This evidence supports a determination that ACC's cost allocations were reasonable.
- Three of the areas examined by IAD -- (1) affiliate payables; (2) the loan from an ACC Officer; and (3) residential property -- have no impact on ACC's high cost support and aren't relevant to the Waiver of the 54.302 Rule requested by ACC.

ACC Demonstrated that it Reasonably Complied with FCC Cost Allocation Rules

ACC provided USAC IAD significant information regarding its non-regulated cost allocation process, including transactions with its affiliate Allband Multimedia, LLC ("AMM"). This process is described in Attachment 1, which was provided to USAC IAD as part of Request No. 8. Further, ACC provided explanations substantiating its expense allocations between regulated and non-regulated operations and answered the Bureau's questions regarding alleged incongruence between expense allocations and customer revenues. See Attachment 2 which was provided to IAD as the response to Question No. 14 of the USAC IAD Background Questionnaire. ACC provided additional supporting information in response to Request No. 6 which contained an analysis of ACC's accounting and cost allocation processes for 2014. This is included as Attachment 3. This information addressed concerns expressed by the Bureau regarding ACC's cost allocations and substantiates their reasonableness. ACC was not provided an opportunity to provide comments regarding the Memorandum prior to its release to the FCC and it is unclear why IAD did not address this information in reaching the conclusions stated in its Memorandum.

Further, ACC provided IAD copies of its audited financial statements and cost studies in response to USAC IAD Request No. 2. It is important to note that ACC's financial statements and accounting records are audited annually by Certified Public Accountants. These audits have not revealed any material misclassifications of expenses. Further, ACC's cost studies that determine its USF payments are prepared by consultants that are experts regarding compliance with the relevant FCC cost allocation rules, and USAC IAD did not identify any significant misallocations of expenses. It is also relevant to note that USAC on four separate occasions reviewed ACC's Federal High Cost Support payments with no significant findings regarding compliance with procedures and rules. See Attachment 4 for copies of the relevant USAC reports.

The IAD Memorandum does not contain any significant findings or exceptions regarding ACC's accounting and cost allocation processes. IAD found no exceptions to critical accounting and cost components that directly impact ACC's high cost universal service amounts. For example, the USAC Memorandum does not find exceptions with respect to plant balances, plant categorization, depreciation amounts, and payroll allocation methods which significantly impact the high cost universal service amounts.

USAC IAD relies on observations of exceptions with respect to limited expense items to reach the conclusion that it "is unable to conclude that ACC's cost allocations were reliable or appropriate in adhering to the FCC rules." The evidence provided by ACC shows that, both on an overall basis and with respect to the costs having the most impact upon USF support, its cost allocation procedures and results are reasonable and in accordance with FCC rules, as IAD found on page 1 of its memorandum.

USAC IAD's Findings Exaggerate the Error Rates for Time Reporting and Expense Transactions

USAC IAD in the Memorandum opines that ACC's cost allocations are unreliable. This opinion appears to be based on USAC IAD's observations and alleged error rates for time reporting and general ledger expense transactions. ACC was extensively involved in the audit process that USAC IAD conducted and is familiar with the information employed to calculate the alleged error rates. The error rates exaggerate the level of errors observed by USAC IAD. For example, USAC IAD asserts there is a 93% error rate with respect to time reporting. However, using the very same time reporting information contained in the USAC IAD observations, ACC calculated an error rate of less than 5%. This 88 percentage point difference renders the error rates relied upon in the Memorandum as too inaccurate and inappropriate to be used in the assessment of the reliability of ACC's cost allocations.

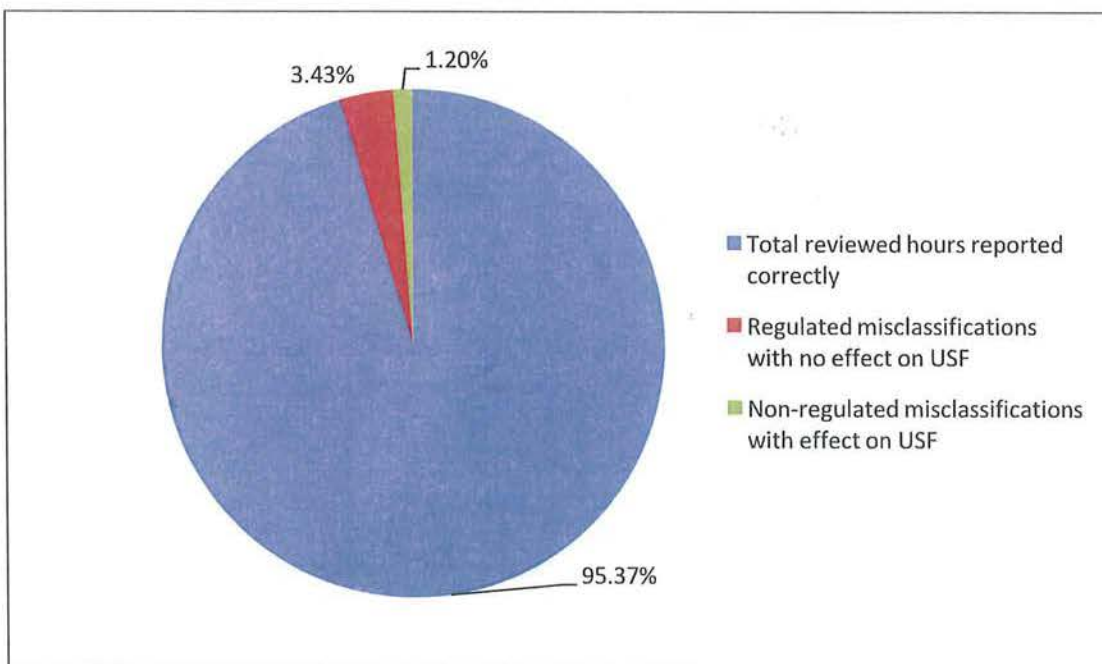
Error Rates for Time Reporting

USAC IAD asserts that 14 out of 15 time sheets reviewed reflect time that was not charged to the correct Part 32 Account. Based on this observation, USAC IAD asserts there is a 93% (14/15) error rate in time reporting. (Memo, p. 2) This is an incorrect error rate and grossly exaggerates the exceptions in time reporting observed by USAC IAD. ACC has analyzed the time reported on the time sheets reviewed by USAC. Attachment 5 contains an analysis of the time reporting hours alleged by USAC IAD to be misclassified. This Attachment shows the total hours reported on the time sheets and the number of hours for which USAC IAD cited issues with the Part 32 account classification or the assignment of time to non-regulated operations. The hours are shown by each exception observed by USAC IAD. Additional details explaining the exceptions are shown in Attachment 6. The number of hours identified by USAC IAD as misclassified was actually 89.6 hours out of the total reported hours of 838.0. This suggests an error rate of 10.7%

(89.6 / 838) rather than the 93% cited by USAC IAD. It is incorrect to use the 93% error rate as a basis to allege that ACC's time reporting and related cost allocations are unreliable.

Additionally, ACC does not agree with all of the exceptions cited by USAC. Removing the alleged exceptions that ACC disputes reduces the number of hours that appear to have been erroneously classified to 38.8 hours. This suggests an error rate of 4.6% (38.8 / 838). See Attachment 6 for ACC comments regarding disputed time reporting misclassifications cited by USAC IAD.

Moreover, the misclassifications related to time reporting do not have a significant impact on ACC's Federal High Cost Support. Many of the minor exceptions noted offset each other in the assignment of associated costs between regulated and non-regulated operations. As shown in Attachment 5, the alleged net misclassification of hours, identified by USAC IAD, to non-regulated operations was 15.95 hours or 1.9% (16.0/838.0). Removing the alleged exceptions that ACC disputes reduces the hours allegedly misclassified to 10.05 hours. This results in an error rate of 1.2% (10.05 / 838.0). Consequently, the errors noted by USAC IAD regarding time reporting do not serve as a reasonable basis for concluding that ACC's cost allocations are unreliable. The chart below demonstrates the insignificance of any impact of time reporting exceptions.



USAC IAD also notes other minor exceptions to the time reporting process, including concerns regarding documentation and estimates of the General Manager's time for 2012. The allocations of the General Manager's time are a reasonable indication of the relative time spent on regulated and non-regulated operations. The majority of the General Manager's time reflects an extensive

amount of time devoted to regulatory compliance and other activities associated with regulatory reform. The Memorandum provides no specific calculation or estimate regarding the amount of the General Manager's time that is alleged to be "misclassified".

Error Rates for General Ledger Expense Transactions

USAC IAD alleges that an error rate of 42% (17 of 40 transactions reviewed) exists for general ledger expense transactions (Memo p. 2). Again the method employed by USAC IAD greatly exaggerates the error rate and does not constitute a reasonable basis to support USAC IAD's assertions that ACC's cost allocations are unreliable.

The transactions reviewed by USAC were not a random sample. Rather, it was ACC's observation that the auditors reviewed all of the general ledger expense transactions and sampled or further reviewed those they believed were questionable. This was more of a forensic analysis of all transactions designed to identify those with faults. For the expense accounts recorded in ACC's general ledgers, there are approximately 4,000 transactions recorded annually. The 17 transactions out of approximately 12,000, occurring over three years, alleged by USAC to be in error, comprise an insignificant 0.14% portion of these total transactions. Further, as discussed below, these have insignificant dollar impacts on ACC's high cost support amounts. This demonstrates that ACC's expense transactions were accurate and dispels USAC IAD's conclusion that ACC's cost allocation practices were unreliable. Additionally, ACC takes exception to several of the 17 alleged errors indicated by USAC IAD in relation to general ledger expense transactions. For more detailed comments regarding the expense transaction findings made by USAC IAD, see Attachment 6.

USAC IAD's Conclusions Regarding Affiliate Transactions are Based on Erroneous Error Rates and Fail to Consider Relevant Information Provided by ACC.

For affiliate transactions, USAC IAD concludes "that it is not possible to determine whether services outside the study area have been priced according to affiliate transaction Rules...because ACC's cost allocation practices are subject to significant error and unreliable." (Memo, p. 3) ACC has shown above that the error rates relied upon by USAC IAD are grossly overstated and do not serve as a reasonable basis for USAC IAD's conclusions. The overstated error rates should not be employed by USAC IAD to conclude that accounting and allocations for ACC's affiliate transactions are unreasonable.

In fact, in response to the original concern expressed by the FCC regarding the affiliate cost allocations not tracking with the percentage of non-USF revenue, ACC provided USAC IAD with analyses demonstrating the reasonableness of the non-regulated and affiliate allocations. In response to USAC Inquiries Nos. 14 and 15, ACC provided information substantiating the reasonableness of the cost allocations. ACC's response to Inquiry No. 14 is provided in

Attachment 2 and the response to Inquiry No. 15 is provided in Attachment 7. These attachments explain the reasons why the allocations between ACC and AMM varied from the relative percentages of non-USF or customer revenue. USAC IAD did not address this information in its Memorandum. USAC IAD erroneously determined that the affiliate transactions were unreasonable based on exaggerated error rates. The USAC IAD findings regarding affiliate transactions are without merit.

USAC IAD's findings concerning allocation of certain legal expenses is among the most significant items related to affiliate cost allocations. The IAD Memo (pages 22 and 29) asserts that a portion of legal expenses paid by ACC (which were directly related to the FCC's USF rulemaking, ACC's FCC Waiver Petitions, and to ACC's Court appeals) should be allocated to the non-regulated AMM subsidiary because "IAD believes the viability of AMM depends of (sic: on) the viability of ACC". The IAD Memo (page 32) also states that "IAD is unable to determine the allocation factor that would generate an amount for this line item", a statement which illustrates the speculative and theoretical nature of IAD's statements on this issue.

The IAD's comments on this issue depart from any reasonable allocation methodology and are not in accord with Part 64.901(b)(2) of the FCC Rules. ACC's legal expenses associated with the FCC Rulemaking, ACC's Waiver Petitions, and ACC's Court appeals have no connection to AMM. ACC predated AMM by several years, and ACC was created and constructed in reliance on state and federal regulatory statutes and orders, and the USF program, issued or existing before the FCC's November 2010 Rulemaking governing the USF program. It was ACC, not AMM, that was eligible to qualify for and receive the USF funding. AMM simply had no link to the USF funding. Part 64.901(b)(2) requires that "costs shall be directly assigned to regulated or non-regulated activities whenever possible." Clearly, the costs are directly related to USF funding and regulated activities of ACC and should be assigned accordingly.

The Total Impact on High Cost Universal Service Support of All Exceptions Identified by USAC IAD are Insignificant

ACC has calculated the total impact on High Cost Universal Service Support of all exceptions in the USAC IAD Report. A summary of the impacts on the High Cost Loop Support (HCLS) and Interstate Common Line Support (ICLS) mechanisms is shown below. Details supporting these amounts are provided in Attachment 8.

Estimated Impact of USAC IAD Exceptions on ACC's High Cost Universal Service Support

YEAR	HCLS IMPACT	ICLS IMPACT	TOTAL IMPACT
2012	(8,433)	(2,766)	(11,199)
2013	(5,335)	(1,801)	(7,136)
2014	(3,126)	(1,395)	(4,521)



It should be noted that in 2012 ACC's support payments were capped based on the FCC's previous waiver order.² The support amounts were capped at annualized January through June 2012 support levels. This cap effectively disallowed \$72,226 of HCLS and \$37,214 of ICLS in 2012. These disallowances more than offset any purported impacts related to the USAC exceptions for 2012. In 2013 and 2014, ACC's actual support amounts were under the cap imposed by the previous waiver order. For 2013 and 2014 the total impact on ACC's high cost universal service support represents less than 0.6% of its estimated total support. (Approximately \$1.2 million for 2013 and 2014). The above chart also demonstrates the insignificance of the total impact of the exceptions for 2012 through 2014. The total impact for all three years is approximately 0.3%. This substantiates that ACC's high cost universal service support amounts, as determined by ACC's cost allocation processes, were reasonable.

Remaining areas examined by IAD: affiliate payables, loan from ACC Officer, and residential property have no impact on ACC's high cost support and are not relevant to the Waiver requested by ACC.

Amounts Owed by AMM to ACC

The FCC requested that USAC IAD examine the amounts owed by AMM to ACC from December 31, 2010 through December 31, 2014 and report the extent to which amounts were more than 30 days past due. As confirmed in the memorandum (memo, p. 4) the transactions between AMM and ACC grew in size as the development of AMM's American Recovery and Reinvestment Act (ARRA) funded network progressed. AMM did not generate revenue until

² In the Matter of Allband Communications Cooperative Petition for Waiver of Certain High-Cost Universal Service Rules, WC Docket No. 10-90, ORDER, Adopted July 25, 2012, Paragraph 15

late 2012, at which time AMM began to accelerate payments to ACC for debt owed. USAC IAD's Memorandum notes that the receivables/payables growth was an appropriate reflection of the increase in size of AMM. The accounts payable amounts shown on IAD's chart (Memo, page 5) were of a short term nature, and have been fully paid to ACC for each year and up to the present. Regardless of the amounts, the affiliate payables and receivables are not a component of costs used to determine high cost universal service support. Consequently, these don't impact the amounts at issue in the Waiver requested by ACC.

Loan from ACC Officer

At the request of the FCC, USAC IAD examined a loan that ACC obtained from its President. ACC considered on-line lending rates and other information to determine a reasonable interest rate for the unsecured loan. The interest rate for this loan, as cited by USAC IAD, was 11%. This interest rate was reasonable considering the loan was unsecured due to USDA Rural Utility Service (RUS) borrowing restrictions and lending institutions typically are reluctant to grant such credit. Regardless, the loan was fully paid back, as noted in the USAC IAD Memorandum.

Further, the interest rate applicable to this loan did not impact regulated operations or the amount of high cost universal service support received.

Residential Property

Allband has never owned residential rental property. Therefore, there were no impacts resulting from USAC IAD's review.

Conclusion and Summary

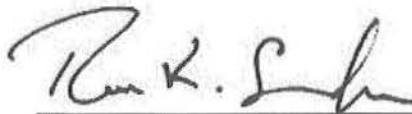
Allband Communications Cooperative has provided the Commission and its Staff with compelling grounds, and exhaustive financial analysis and audited statements, as part of its 2012 Waiver Petition, and December 2014 Waiver Petition, and supplemental filings including this filing, to support Allband's request for an extended and continuing waiver of the Commission's High-Cost Universal Service Rules. These extensive filings by Allband, which have not been countered by USAC IAD's Memorandum, establish good cause for the requested waiver.

As established in this Response, and supporting Attachments, Allband has responded to all of USAC IAD's information requests, and to all issues raised in the Wireline Competition Bureau's June 29, 2015 Order. Allband's cost allocations are reasonable on an overall basis, as are the revenue and expenses assigned to both ACC and AMM. No significant affiliate transaction cost misallocations have been demonstrated or exist. No issues exist or remain relative to accounts payables owed to ACC from AMM, ownership by ACC of residential real estate, or the past (now paid) loan provided by an ACC officer, or other matters. In any event, the IAD Memo does not demonstrate any real impact upon Allband's costs for purposes of determining USF funding.

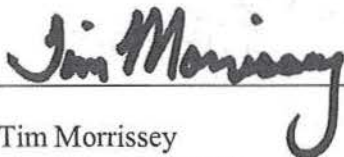
The primary finding of the USAC IAD Memo resonates---“ACC’s cost allocation procedures and methodology generally do appear reasonable and in accordance with FCC Rules.” The IAD Memo’s inconsistent subsidiary comment regarding its “inability”, to conclude that ACC’s cost allocation practices were “reliable or appropriate in adhering to FCC Rules” appears to have been based upon limited and unrepresentative sample testing. As documented in this Response and accompanying Attachments, the IAD relied upon allocation error rates that are highly exaggerated and do not serve as a credible basis for determining that ACC’s cost allocations are unreliable. In any event, the IAD Memo does not show any significant net impact upon ACC’s regulated costs or its resulting USF funding, nor does it demonstrate any violations of FCC Rules. The total net impact of all of USAC IAD’s findings on ACC’s High Cost Universal Service support is negligible, further supporting the overall reasonableness and reliability of ACC’s cost allocations.

Another overriding reality is that Allband, as a non-profit cooperative, assigned the duties and responsibilities of an Incumbent Local Exchange Carrier and Eligible Telecommunications Carrier, is perhaps the most recent entity in the nation to construct and operate a modern network in a previously unserved rural area, pursuant to the purposes and objectives of Congress in establishing the USF program in the 1996 Act. Allband has successfully complied in good faith with the purposes and objectives of the 1996 Act, 47 U.S.C. Section 1302, the Broadband Data Improvement Act, 47 U.S.C. Section 1301, et seq., and the American Recovery and Reinvestment Act, 47 U.S.C. Section 1305, to promote the deployment of facilities capable of providing an array of quality broadband services to long-term unserved rural areas, at reasonable rates, that are reasonably comparable to the broadband services and rates available in urban areas. Allband should be recognized and rewarded, not punished, for successfully carrying out this mission.

Allband requests the Commission to grant in full its December 2014 Waiver Request, and to grant such further and consistent relief that is lawful, reasonable, and equitable.



Ron Siegel
General Manager, Allband Communications Cooperative



Tim Morrissey
President, Fred Williamson and Associates (Consultants for ACC)

List of Attachments

Attachment 1 - Allband Communications, Inc. - Procedures for Assignment of Costs to Affiliate Accounts and Non-regulated Operations (provided in response to USAC IAD Request No. 8)

Attachment 2 – Expense allocations compared with customer revenue percentages (provided in response to USAC IAD Background Questionnaire – Question No. 14)

Attachment 3 - Allband Communications, Inc. - Description of Assignments and Allocations to Non-regulated Operations - 2014 (provided in response to USAC IAD Request No. 6)

Attachment 4 – Prior USAC Audit Reviews of HCLS and ICLS

4a. – 2013 Interstate Common Line Support In-Depth Validation Process

4b. – Federal Universal Service Fund High Cost Program Payment Quality Assessment - 6/1/2012

4c. – Federal Universal Service Fund High Cost Program Payment Quality Assessment - 11/1/2011

4c. – 2010 Interstate Common Line Support In-Depth Validation Process

Attachment 5 – Analysis of Time Reporting Misclassifications

Attachment 6 - USAC IAD Observations Record with ACC's Comments

Attachment 7 - Response and Calculation of Hypothetical Percentage of Customer Revenue (provided in response to USAC IAD Background Questionnaire – Question No. 15)

Attachment 8 - Quantification of Impact of USAC IAD's Observations/Exceptions